COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE CONSIDERATION OF LIFE-LINE RATES AS REQUIRED BY SECTION 114 OF THE PUBLIC UTILITY REGULATORY POLICIES ACT	) ADMINISTRATIVE CASE NO. 248) (a) Kentucky Utilities Company) (b) Louisville Gas and Electric Company) (c) Union Light, Heat and Power Company) (d) Kentucky Power Company

O R D E R

Introduction

The Public Utility Regulatory Policies Act of 1978 ("PURPA") requires the Public Service Commission ("Commission") to determine whether "lifeline rates" should be implemented by each of the four PURPA-covered utilities -- Kentucky Utilities Company ("KU"), Louisville Gas and Electric Company ("LG&E"), Union Light, Heat and Power Company ("ULH&P"), and Kentucky Power Company ("Ky. Power"). Section 114(a) of PURPA refers to "lifeline rates" as " . . . a rate for essential needs . . . of residential electric consumers which is lower than a rate under the [PURPA ratemaking] standard. . . . " Section 114(b) of PURPA states that the determination should be made after an evidentiary hearing.

I. BACKGROUND

On May 20, 1981, the Commission issued its initial Order in Administrative Case No. 248, with which the Commission would meet the requirements of Section 114 of PURPA. A prehearing conference was set for June 19, 1981, the purposes of which were: (1) to determine the extent of interest in lifeline proceedings for the four PURPA-covered utilities; (2) to establish a date for the evidentiary hearing; and (3) to develop a forum that would best meet all of the parties' needs.

Parties at the prehearing conference included KU, LG&E, ULH&P, Ky. Power, the Kentucky Association of Electric Cooperatives ("KAEC"), the Appalachian Research and Defense Fund of Kentucky, Inc. ("APPALRED"), the Kentucky Industrial Utility Customers ("KIUC"), Ashland Oil, Inc. ("Ashland Oil"), the Attorney General's Office - Division of Consumer Protection ("Attorney General"), the Low Income Residents of Northern Kentucky, the Office of Kentucky Legal Services Programs, and the Office of the City Solicitor of Covington.

In its Order of June 29, 1981, the Commission recognized the above parties; scheduled August 3, 1981, as the deadline for the prefiling of testimony; and scheduled the evidentiary hearings for August 19 and 20, 1981. The Commission also granted the request that information presented in Administrative Case No. 202 be included as a part of the record in this case. Administrative Case No. 202 was an earlier proceeding on lifeline rates which covered all electric and gas companies regulated by this Commission. No final Order was issued in that proceeding.

On August 19, 1981, statements were made by the following: Bruce Lunsford, Secretary of the Commerce Cabinet of Kentucky; E. K. Bristow; Irene Pfaff; Len Spanjers; Virginia B. Taylor; Jane Greenebaum; Clarence Price; Artis Flemister; Jean McKinney; Anita Lawless; Dorothy Cox; Hattie L. Green; Al Spotts; Jessie Harris; Hazel Hazard; Lelah Barney; Taliha H. Ballew; Frederick Douglas; Narcissus Haynes; Alean Uselton; Katharine Hayes; and Anetta Louise Locke. The following testified and were subject to cross-examination: Robert Matthews and Louis R. Jahn for Ky. Power, J. W. Bradley for KU, John Hart, Jr., for LG&E, and Donald I. Marshall for ULH&P.

On August 20, 1981, the following testified and were subject to cross-examination: Clifford R. Borland, Sr., Jay B. Kennedy, and James M. Honaker for KIUC: Thomas D. Austin for APPALRED; Ron Willenbrink and Nicholas Phillips, Jr., for Ashland Oil; and Ron Sheets for KAEC.

At the close of the hearing the Commission ordered that briefs be filed by September 28, 1981. The Commission received briefs from the following parties: KU, LG&E, Ky. Power, KIUC, Attorney General, APPALRED, and Ashland Oil.

II. <u>GENERAL DISCUSSION</u>

The Commission is acutely aware of the rise in the cost of all forms of energy which has taken place in the United States over the past decade, and the strain which that rise has imposed on the already meager budgets of those on fixed or low incomes. Although the price increases have not been uniform, no conventional energy source has been spared. Since the oil embargo of late 1973, the price of petroleum and petroleum products has increased dramatically, and today a gallon of gasoline or fuel oil costs several times what it did in 1973.

The price of natural gas has risen sharply in the past several years, in response to the deregulation provision contained in the federal Natural Gas Policy Act of 1978. Today, the Commission has very little influence over the price the Kentucky consumer must pay for natural gas.

Electricity has not been spared. The price of electricity is considerably higher today than it was a decade ago, reflecting the dramatic rise in interest rates, especially consequential to an industry which must borrow heavily; the rapid rise in the cost of generating equipment, especially when the cost of pollution control equipment is added; and the substantial increase in the cost of fuel. But there has been considerable difference among states and regions in the amount of increase in electric rates, reflecting the different fuels used. Kentuckians are fortunate. Coal is virtually the sole fuel used to generate electricity in Kentucky, and today the rates Kentucky consumers pay for electricity are among the lowest in the nation. This does not mean that the cost of electricity in Kentucky has not risen, or that this increase has not worked particular hardship on those on fixed or low incomes. Kentuckians have, however, been relatively fortunate.

III. LIFELINE CONCEPT

The rising energy costs of the 1970's, discussed in the foregoing, have prompted efforts for relief, especially for those on fixed or low incomes who have been forced to spend a large and increasing proportion of their disposable income on energy -- oil, gas and electricity. In 1973, the Vermont Public Interest Research Group proposed a means to mitigate the impact on the poor and elderly. The first 300 kilowatt-hours usage in each month would be priced at 3 cents per kilowatt-hour. This was the introduction of the lifeline proposal for energy.

In 1978, the Congress recognized the plight of the poor and the elderly by including Section 114 in PURPA. Section 114(a) states:

> No provision of this title prohibits a State regulatory authority (with respect to an electric utility for which it has ratemaking authority) or a non-regulated electric utility from fixing, approving, or allowing to go into effect a rate for essential needs (as defined by the State regulatory authority or by the nonregulated electric utility, as the case may be) of residential electric consumers which is lower than a rate under the standard referred to in section 111(d)(1).

Section 111(d)(1) is the cost of service standard considered by the Commission in Administrative Case No. 203. It states that rates shall be designed, to the maximum extent practicable, to reflect the costs of providing electric service. Section 114 requires the consideration of a deviation from cost-based rates and the implementation of a rate lower than the cost of providing electric service.

To implement lifeline rates, the Commission would have to answer several questions. First, what amount of electricity (number of kilowatt-hours) would be required to meet the "essential needs of residential electric consumers"? Second, how much should the "rate for essential needs" be below the cost of providing electric service for these consumers? Third, how would the revenue shortfall that results from the sale of certain kilowatt-hours below cost be recouped? Should it be recovered from commercial and industrial customers, or from commercial, industrial and larger residential users, or just from larger residential users?

Obviously, the answers to the preceding questions depend on factors such as the size of the family, the square footage of the residence, the appliances which are deemed essential, the source of heat for the household, the current cost to provide service, and the utility's customer mix. However, the Commission need not answer these complex questions until it has determined whether lifeline rates should be implemented in Kentucky.

IV. DETERMINATION

After very careful consideration of the evidence and the pleadings of all the parties the Commission has determined that implementation of rates specifically designated "lifeline" is not the best method to provide poor and elderly residential consumers the assistance they so justly deserve. The Commission concurs that assistance for the poor and elderly is today a worthwhile and often life-sustaining objective, and agrees that the need for such assistance may increase in the future. But the problem is a social problem, best dealt with through federal and/or State legislation, and not by this Commission. Programs designed to improve the economic condition of those on low and fixed incomes involve income redistribution. It is the opinion of the Commission that such measures should be undertaken carefully and explicitly, and are beyond its purview.

V. FINDINGS

In reaching this difficult determination, which it has done only after considerable thought and discussion, the Commission has made the following findings: (A) The financial benefit to the consumer of a rate specifically designated "lifeline" would be disappointingly small, and thus would likely imply far more than it would deliver; (B) The financial benefit would not be distributed in an equitable fashion; and (C) The objectives of a lifeline rate could better be accomplished by using alternative means.

A. Minimal Financial Benefit

APPALRED witness Austin, representing low income residential intervenors, was the strongest supporter of lifeline rates at the hearing. He recommended that each company be ordered to "submit a lifeline rate reflecting a 25% reduction below cost for the first 250 kilowatt-hour of monthly usage." 1/ The Commission has applied Mr. Austin's recommendation to the rates of the four PURPA-covered companies as of April 1, 1981, and has produced the following table:

1/ Austin Testimony, p. 7.

Table 1
Maximum Lifeline Benefits

Company	Base Rate* (a)	Fuel Adjustment Amount (b)	Total Bill (c)	Maximum Lifeline Benefits** (d)
Ky. Power	$12.16	$ .40	$12.56	$3.04
KU	13.55	.95	14.50	3.39
LG&E	13.42	.18	13.60	3.36
ULH&P	12.46	.34	12.80	3.12

*Based on rates in effect on April 1, 1981 - includes minimum bill or customer charge.

**Calculated as (d) = (c) - .75(a) - (b).

The maximum lifeline benefit could be smaller or larger if either the size of the lifeline block or the percentage reduction were changed. However, smaller benefits lessen the assistance to the poor and elderly, while larger benefits increase the revenue shortfall that must be recouped from other customers. Mr. Austin's recommended block at 25% below the rates on April 1, 1981, shows the relatively small size of potential benefits, and reflects the relatively low electric rates in Kentucky.

It should be emphasized that the amounts in column (d) of Table 1 are the maximum benefits that would result under this recommendation. If the revenue shortfall were recovered from the commercial and industrial customers, then the maximum lifeline benefit would be available to all residential customers who consumed 250 or more kilowatt-hours per month. However, if the revenue shortfall were recovered from high consumption consumers, then the only customers receiving the maximum lifeline benefit would be those consuming exactly 250 kilowatt-hours. Those consuming more than 250 kilowatt-hours would contribute to the recovery of the revenue shortfall. Their lifeline benefits would be less than those listed in column (d) of Table 1 and could be negative, resulting in an additional cost to them.

The maximum lifeline benefits calculated above are inconsequential in the light of the average utility bill of $96 referred to in the testimony of Mr. Len Spanjers, who represented the Louisville and Jefferson County Community Action Agency. 2/ Other poor or elderly customers received utility bills of $100 or greater. 3/ The receipt of the maximum lifeline benefit of $3 or $4 per month would not provide the relief such customers require.

B. Inequitable Distribution

The lifeline concept assumes a strong correlation between energy usage and income, that is, low income consumers are low energy users and vice versa. If this correlation is correct, then high-income-high-energy users would transfer income through the lifeline subsidy to the low-income-low-energy users.

However, there is considerable doubt regarding the strength of this correlation. ULH&P witness Marshall referred to an Ohio study by the consulting firm of Elrick & Lavidge in which Cincinnati Gas and Electric Company, the parent firm of ULH&P, participated. The study showed that:

2/ Transcript of Evidence, August 19, 1981, p. 22.

3/ Transcript of Evidence, August 19, 1981, pp. 33, 38, 48, 55.

> ...with a 300 kilowatt-hour lifeline threshold 49 out of 57 or 86% of the customers in the lowest income category would benefit. Additionally, 42 customers out of 130 or 32% with annual incomes in excess of $20,000 would also benefit by the lifeline rate structure. This data also shows that less than half of the customers in the lowest income category have monthly usage of 300 kilowatt-hours or less. Clearly, the benefits of the lifeline rate would not accrue solely to the group for which it was intended. 4/

KIUC witness Kennedy discussed studies by the Tennessee Valley Authority, the Florida Public Service Commission and the Rand Corporation for the Los Angeles Department of Water and Power which also demonstrated the weak correlation between energy usage and income. 5/

APPALRED witness Austin concluded from a Department of Energy study entitled "Residential Energy Consumption Survey: Consumption Expenditures, April 1978 through March 1979" that "low income households tend to consume relatively small amounts of electricity, generally pay the highest prices for electricity they do consume and pay a substantially higher proportion of income for electricity than do other consumers." 6/

The Commission believes that the tendencies Mr. Austin mentions are not sufficient to support the imposition of lifeline rates. There is an extremely high probability that lifeline rates would result in the perverse situation in which some low-income-high-energy consumers were subsidizing a

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4/ Marshall Testimony, pp. 6-7.

5/ Austin Testimony, Exhibit TA-2, p. 29.

6/ Austin Testimony, Exhibit TA-2, p. 29.

group of unintended beneficiaries, the high income-low-energy consumers. Thus, some of those in need would not receive assistance, and worse, they would assist those who have no need.

The Commission also notes that many of those deserving assistance in Kentucky would receive none if lifeline rates were implemented. This proceeding only affects four investor-owned electric companies. It does not cover the electric distribution cooperatives that serve much of Kentucky, nor the natural gas companies which provide a primary source of energy for many Kentucky households.

In addition, this Commission has no jurisdiction over the municipal utility systems that serve many Kentuckians, nor does it regulate the sellers of propane or fuel oil. Further, since a substantial number of low-income households are located in buildings that are master-metered, 7/ those receiving service at such facilities would receive no benefits from lifeline rates. More than that, the likely impact on these consumers would be higher rents because master-metered facilities would be charged higher electric rates to subsidize the lifeline benefits.

Thus, the Commission concludes that the implementation of lifeline rates would not provide significant aid to those who need it, and would provide assistance to some who do not. Finally, the Commission finds it unacceptable that

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7/ Brief for Louisville Gas and Electric Company, p. 5.

lifeline rates could raise the cost of electricity to some who need assistance.

C. Alternative Means

Lifeline rates can be viewed as an attempt to redistribute income from high-income households to low-income households. The Commission finds that lifeline rates are an inefficient means of accomplishing redistribution of income, and further that pursuit of purely social policies is not a function of this Commission. Its role is to regulate the utilities in a manner that protects varied interests, including those of consumers and utility investors. The most appropriate means to balance these interests is the development of rates that reflect the costs to serve customers. Further, rates which are based on costs best promote the PURPA purposes of conservation, efficiency, and equity.

The Commission is of the opinion that rates that reflect costs will protect the interests of the poor and elderly consumers more than the widespread declining block rates do. For example, APPALRED witness Austin notes that in a period when energy prices are increasing faster than prices in general, "given current rate structures, ...the burden will fall most heavily on the poor." 8/ Similarly, Ms. Irene Pfaff expressed her concern that a declining block rate structure "discriminates against the small user." 9/

Thus, the Commission finds that its policy of rates based on costs will protect the interest of small users, and

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8/ Austin Testimony, Exhibit TA-2, p. 32.

9/ Transcript of Evidence, August 19, 1981, p. 17.

that development and implementation of this policy is consistent with the statutory role of this Commission.

The Commission notes that the most effective way to assist low income households is likely to be the allocation of tax revenues through existing government agencies to those who need assistance. This should be accomplished by the Congress and/or General Assembly, not by this Commission.

Many testified during this hearing that the federally-funded Home Energy Assistance Program ("HEAP") in Kentucky provides the type of assistance required. However it appears that this program will not be able to assist all of those in need. To the extent that funding permits, the Commission strongly encourages the legislature to consider expanding HEAP or undertaking similar programs. These programs are superior to lifeline rates because benefits are directed to those in demonstrated need of assistance, and because benefits can be provided at meaningful levels.

VI. SUMMARY

The Commission has determined not to implement rates designated "lifeline." Although the Commission sympathizes with the plight of the poor and elderly in paying their electric bills, it finds the amount of assistance that could be provided by a "lifeline" rate in Kentucky would be inadequate. Further, the Commission believes that efforts to assist those on fixed or low income involve social policy, far beyond the proper province of the Commission. Finally, the Commission believes that effective means to meet the needs of those citizens require action by the national and/or State legislature. The Commission recommends that such action be considered. The inability of the Commission to provide meaningful aid to Kentuckians of low and fixed incomes in no way diminishes the very considerable need for such assistance.

IT IS THEREFORE ORDERED that the electric utilities, KU, LG&E, ULH&P and Ky. Power, shall not be required to implement a lifeline rate.

Done at Frankfort, Kentucky, this 28th day of February, 1982.

By the Commission

ATTEST:

Secretary

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PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Glen Carnegie
Commissioner

ATTEST:

Secretary